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THE OLSON COMPANY**

Affordable Housing Problem in California

Honorable Members of the Commission:

Thank you for the opportunity to take part in your hearing on June 28th. The Olson Company is one of California's leading builders of affordable homes and has provided California families the opportunity to own an affordable new home in the urban areas of California.

The following is a brief response to the three questions from the Commission:

1. *How redevelopment agencies and other local government entities have most effectively assisted The Olson Company in producing affordable housing.*

There are five challenges, which the Olson Company must overcome to successfully complete a new community in an urban area with sales prices attainable to a low to moderate-income homeowner.

The first challenge is the acquisition of land. The Olson Company has partnered with numerous agencies throughout California to (1) acquire land directly from an agency, (2) to have the agency acquire a portion of a property which creates a feasible parcel, (3) financially assist in the purchase of a site through grants to reduce the land cost or low interest loans to reduce the cost impact of carrying the property through the entitlement process.

The two key tools the agencies use to support this process are the right of condemnation and the 20% housing set aside funds.

The second challenge is the existing infrastructure in the urban areas. The agencies assist The Olson Company in offsetting the cost to replace the existing infrastructure. Most new housing communities cannot pay the cost to replace or upgrade the existing offsite infrastructure. Generally this infrastructure serves a much broader user group than the new housing community.

The third challenge is the cost of government fees for housing. The fee structure in most jurisdictions is based on a per unit fee. For example, the sewer connection fee might be \$5,000 per unit; this is applicable to a 1,000 square foot townhome and a 5,000 square foot single-family house. The affordable townhome has to pay a much larger percentage of its value for the sewer fee. Several agencies and cities have reduced the fees for affordable housing. However, the agencies and cities can only reduce their own fees.

The county agencies and school districts do not have programs to reduce fees for affordable housing. The government fees can range from 10% to 20% of the selling price of a home and can equal as much as 40% of the cost to build the home. Agencies will also assist in offsetting the cost of the county and school fees.

The fourth challenge is the issue of density. California must develop higher density homes to meet our affordable housing challenges. Redevelopment agencies help The Olson Company work with city planning departments and neighborhood groups to entitle new affordable developments. The new communities are generally denser than the existing community. The best agencies take a pro-active approach to neighborhood outreach, city council and staff education. This pro-active approach helps to shorten the entitlement process and maintains the appropriate densities. The City of Brea is an excellent model for achieving a balanced housing program through neighborhood outreach and education.

The fifth challenge is an affordable buyers ability to purchase a home. The redevelopment agencies provide the affordable homebuyers with silent seconds to offset the cost of purchasing a new home. A typical silent second works as follows:

The Olson Company will be selling a home for \$200,000 and the agency desires to assist low income families (annual income ranging from \$35,000 to \$45,000 per year) to purchase their first home. The agency will provide the buyer with a \$60,000 silent second. The silent second is recorded as a second trust deed on the property and the agency provides the buyer with the \$60,000 as part of their down payment. The \$60,000 silent second bears no interest for the first 5 to 10 years and then is repaid over the next 20 to 25 years at a nominal interest rate of 5%. If the buyer has a down payment of 3% or \$6,000, then the buyer will need to qualify for a \$134,000 first mortgage.

The agencies silent second funds come their 20% housing set aside pool.

2. *Ways the State could help local governments resolve land use conflicts that impede the development of affordable housing.*

In general, if a city is in favor of affordable housing then they generally can resolve any land use issues with the existing regulations. The barriers, which impede affordable housing are created by cities that do not want new housing and they use any methods possible to discourage housing.

The cities, which do not want any additional new housing claim that they do not get enough revenue from property taxes to offset the cost of the new housing. The State could provide a variety of incentives to cities to provide

new housing, including (1) direct cash payments for generating new housing, (2) permitting the cities to keep the tax increment on all new housing developments, even if the new housing development is outside a redevelopment boundary, (3) providing additional funds for offsite infrastructure which is tied to the development of new housing, and (4) conditioning funds currently sent to cities on the cities production of new housing.

Additional thoughts include the following: (1) the State could require stricter “Nexus” when a city or county develops the projects Conditions of Approval, (2) the State could also empower Regional COGS as the State’s affordable housing advocates and create enforcement power and incentives, which the COGS could use to enhance regional planning, (3) the State include an implementation requirement in the Housing Element Update process, (4) the State could require that any State owned surplus land be set aside for affordable housing.

3. *State or local policies that discourage the development of affordable housing or unnecessarily add to the cost of construction.*

In general, the local policies drive the production of housing. The Olson Company has not been impacted by any State policies, except the current issues the Commission is reviewing on prevailing wages.

The State could tighten the loopholes on the “Streamlining Act”. This would help reduce the entitlement time frames from the current situation, which requires one to two years to entitle even the smallest parcel. Some local agencies require applicants to sign a waiver of the streamlining rights.

The State could also tighten the criteria for a CEQA challenge. The current criteria are very loose and create delays in the entitlement process.

The State could also stabilize school fees. Too many school districts have found loopholes to the current system and are attempting to charge significantly more than the current permitted rate. In some instances school fees are approaching \$10,000 per home.

The major impact to the cost of housing in California is the local policy on housing densities. In some cities in California, a builder could build a 20-story office building, yet the city would oppose a housing development in excess of 2 stories. The zoning codes and general plans of most cities are very outdated and contain provisions, which negatively impact attached housing. California cities need an incentive to update their general plans and zoning codes to adequately support their fair share of new housing.